IRCTC

Accumulate

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Company Update

Ticketing crosses Pre-COVID levels; other segments to follow

IRCTC has witnessed significant jump in passenger volumes travelling (expected to go up 100% QoQ) as the COVID impacted eased out, leading to resumption of more Train services/frequencies. This would drive revival in Ticketing business in Q2 and rest other segment by Q3.

We expect its earnings to compound at 30% CAGR over FY22-FY30E as it would gain from several factors such as 1) Ticketing volume jump by induction of 2S in reserved category, 2) Catering revenue normalization, pricing increase of 60%, 3) RailNeer – doubling of capacity, 4) Tourism:- resumption/scale up of Tours/air booking/train operations, 5) Payment gateway – driving up ticketing realization, 6) OTAs driving up agent fees and ecatering volume, 7) New Avenues:- TSV, hotel aggregator and 8) large untapped pricing potential. Thus, we believe IRCTC is a multi-year high growth compounding story and thus maintain our Accumulate view with DCF based TP of Rs5200 (implies 62x on FY24E EPS; ~2x on PEG basis).

Ticketing all time high

In Sep'21, Indian Railways has witnessed total passenger bookings at 75mn which is up 50% compared to Pre-Covid levels and up 7% even excluding 2S bookings. This month is the first month to mark passenger bookings higher than Pre-COVID volumes. For the quarter Q2FY22, bookings are higher by 100% on QoQ basis and is up 15% higher than Pre-COVID volumes. Assuming a conservative levels of 1.5x passenger per ticket and internet penetration of 80% for the quarter, we expect IRCTC to clock Ticketing sales of about 112mn in Q2 (as against 78mn in Q3FY20; 64mn in Q1FY22). We expect EBIT margins of 85% and Segmental EBIT of Rs2.2bn for the quarter (annualized Rs11bn in FY23).

Rail Neer to perform well

With new plants commissioning the total capacity have reached 14mn per day (new tender for another Rail Neer plant at Kota has been floated). Increased capacities and sourcing stations (total 18 stations across 4 zones) would imply even wider coverage for Rail Neer during Q2FY22E. This along with robust recovery in passenger traffic, we expect Rail Neer volumes to reach 80% of Pre-Covid levels by Sep'21 and achieve its peak production/sales run rate of 250mn/litres run rate by Q3FY22. We expect EBIT margins to reach 12% mark during FY22E as against 2% in Q1FY22.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	18,680	22,755	7,831	18,732	28,830
Growth(%)	27.0	21.8	(65.6)	139.2	53.9
EBITDA	3,805	7,134	1,915	9,056	13,411
OPM(%)	20.4	31.4	24.5	48.3	46.5
PAT	2,683	5,274	1,505	6,919	10,190
Growth(%)	25.2	96.6	(71.5)	359.7	47.3
EPS(Rs.)	16.8	33.0	9.4	43.2	63.7
Growth(%)	(68.7)	96.6	(71.5)	359.7	47.3
PER(x)	264.4	134.5	471.4	102.5	69.6
ROANW(%)	30.3	44.1	13.6	40.3	44.8
ROACE(%)	28.2	45.3	11.2	40.7	45.0

CMP	Rs 4,434
Target / Upside	Rs 5,200 / 17%
NIFTY	18,419

Scrip Details

Equity / FV	Rs 1,600mn / Rs 10
Market Cap	Rs 709bn
	USD 9.5bn
52-week High/Low	Rs 6,396/ 1,290
Avg. Volume (no)	4,603,940
Bloom Code	IRCTC IN

Price Performance	1M	3M	12M
Absolute (%)	20	86	233
Rel to NIFTY (%)	14	68	178

Shareholding Pattern

	Mar'21	Jun'21	Sep'21
Promoters	67.4	67.4	167.4
MF/Banks/FIs	10.3	11.3	11.3
FIIs	8.2	8.1	108.1
Public /	14.1	13.2	(186.8)

IRCTC Relative to SENSEX

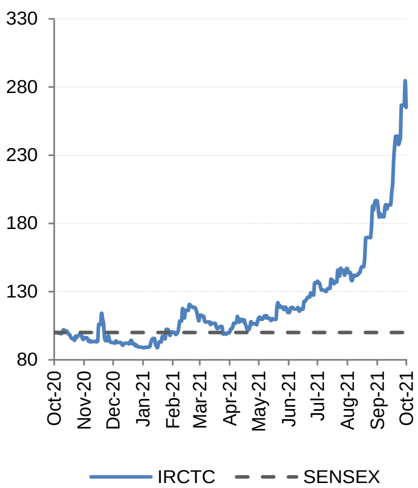

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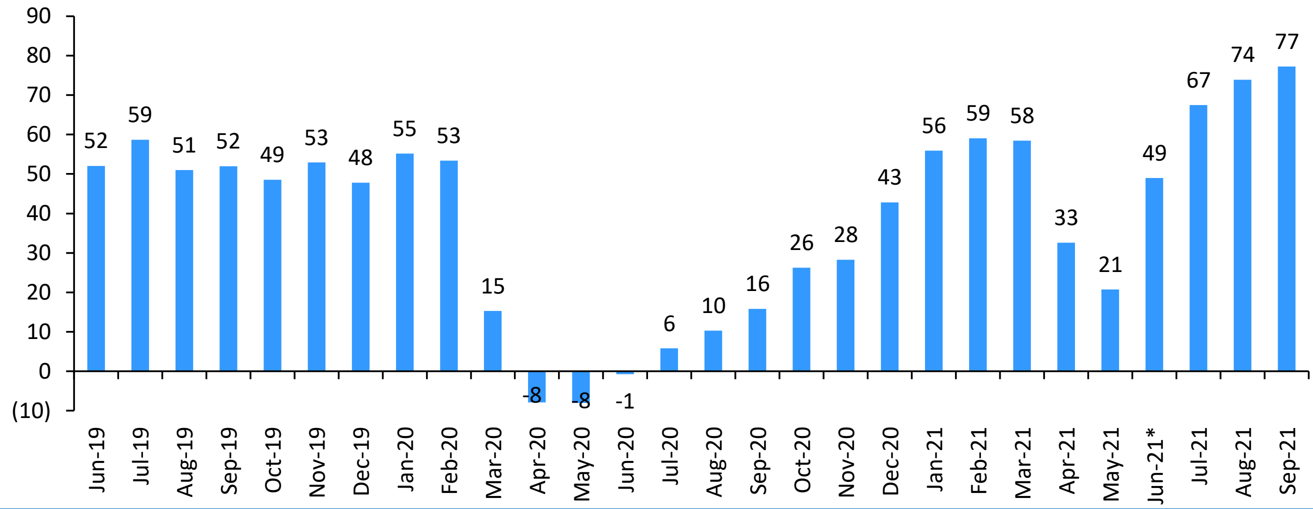
Exhibit 1: PRS ticket booking (monthly in mn)



Source: DART, Company; Indian Railways

Catering segment to revive sharply in Q3

Catering segment has taken significant hit during COVID due to 1) cancellation of Prepaid trains – although large part of that was pass-through revenues; 2) shift in food offerings from 'Cooked food' to 'Ready-to-eat' packaged food format; 3) closures of several food units, 4) lower food volumes due to COVID scare, lower footfalls on stations resulting in lower tender quotes for license fees. Most of these worries are waning out now, as station footfalls and passenger travelling has surpassed pre-covid levels and thus the Minimum License Fees (MLF) is likely to go up sharply for all tenders hereon. RTE remains the only challenge, which is also likely to get resolved as Railways have already allowed Static Units to offer 'Cooked food' for some time now. Operational units on Mobile catering has already exceeded the pre-COVID levels (total trains with pantry/TSV units are at 525; versus 400 in FY20). eCatering volumes have been picking up sharply with increased reach & order per day run rate. We expect revenues to improve multifold from Rs567mn in Q1FY22 to reach Rs2500mn by Q2FY24 on normalized basis.

Tourism segment expected to pick-up sharply in H2FY22

We expect sharp recovery in tourism revenues in H2FY22. Early signs of these are evident from pick-up in utilization for Tejas Express and also strong demand for its offerings for Holiday packages. The company is now operating about 45 unique tours from its platform as against 55 in Pre-COVID times. The only segment that would continue to remain soft is the Out-bound tourism both for Tour-operator segment as well as luxury train operation segment (Maharaja/Golden Chariot). State Teertha volumes are expected to pick-up in CY22 sharply given upcoming elections in UP/Punjab/Uttrakhand/Goa.

OTAs are enabler not disrupters

Unlike the other segment, the robust shift in volumes from IRCTC portal to third-party players (OTAs, Agents) actually drives higher revenue upside for the company. During FY21 the ticketing volumes by agents increased to 33% from 22% in FY21. The company earns excess revenues in the range of Rs12-Rs40 other than the convenience fees from the passenger depending upon the mode of payment and the portal used for booking (Refer Exhibit). OTAs such as Ixigo actually pushes the revenues for IRCTC both in ticketing as well as eCatering.

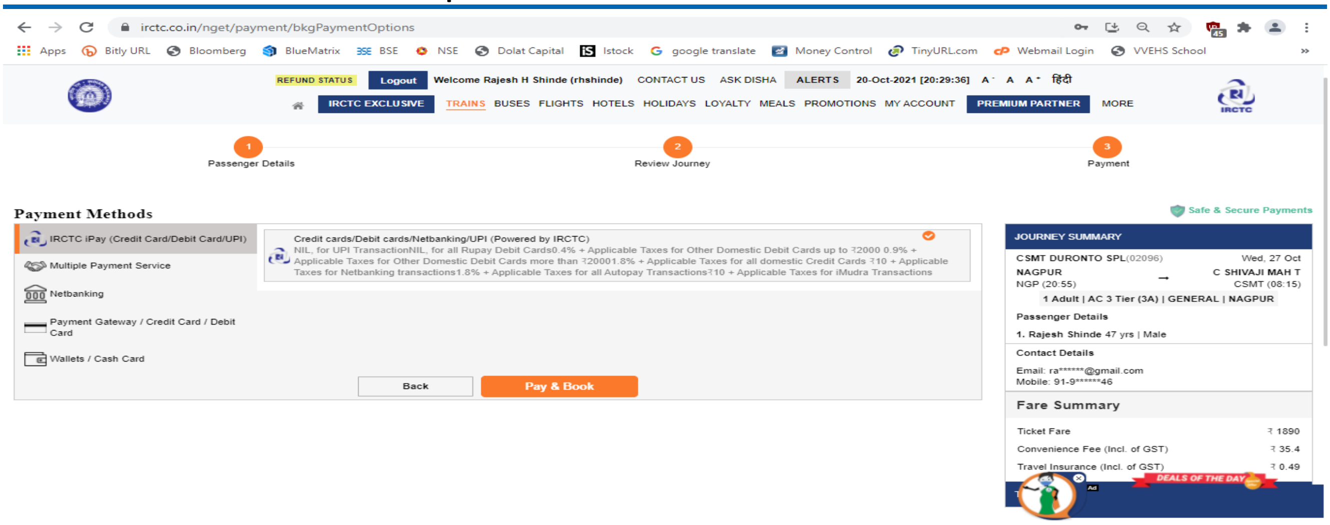
Exhibit 2: Additional charges for Passenger (A/c) in different payment mode scenarios

Medium of Payment	Ticket value (Rs)	Convenience Fees	Rev share model (%)	Additional Charge by Payment partner	Portal	Customer Pays	IRCTC share (%)	Revenue for IRCTC
UPI	1,000	20	None	0	IRCTC	1020.0	0	20.0
Netbanking	1,000	30	Flat fees Rs5/tkt	10	IRCTC	1040.0	50	35.0
Debit Card (Rs 2000+) 0.9%*	1,000	30	0.90	9.27	IRCTC	1039.3	30	32.8
Credit Card (Other Payment Gateway)	1,000	30	1.80	18.54	IRCTC	1048.5	25	34.6
Credit Card (IRCTC Payment Gateway)	1,000	30	1.80	18.54	IRCTC	1048.5	60	41.1
Wallets	1,000	30	1.80	18.54	IRCTC	1048.5	25	34.6
Rupay Cards	1,000	30	0.00	0	IRCTC	1030.0	0	30.0
Ticket booked on Agent/OTA through Card	1,000	30	0.018	18.54	MMT/ Paytm /Ixigo	1088.5	30	47.6

*Source: DART, Company; * 0.4% is charged if transaction value is sub Rs2k/ticket; Note in case of Non-AC Rs 10 for UPI, Rs 15 in non-UPI transaction*

Payment Gateway revenues to improve: With doubling of ticketing volumes we expect robust recovery in the allied-segments within Ticketing units such as Payment Gateway, Bank Charges, Advertising and Broker/Agent fees. The company is also in talks to offer its PG services on other Government Web portals which if in case are placed on priority as in case of IRCTC.co.in would mean significant increase in revenue potential for the PG segment.

Exhibit 3: IRCTC is default choice on portal



Source: DART, Company, irctc.co.in

New avenues to add new revenue pools: 1) TSV or Train Side Vending contracts would reduce revenue leakages in form of food sold by unauthorized vendors that onboard trains, 2) Pricing hike in catering can drive MLF substantially, 3) eCatering to drive per-capita food spends, 4) Air/Bus/Cruise/Hotel booking (currently all these things are at a very small scale and would collectively add significant revenues in tourism segment); 5) Retiring Rooms, Lounges, Upcoming Hotels, 6) New train launches supported by DFC launch (will support strong ticketing growth), 7) Private Train operations (may add more trains under its operations). All these seven factors would ensure revenue growth will remain healthy at 15%+ CAGR across segments over FY24-30E.

Optionality: IRCTC has two very large optionality that can drive its earnings estimates significantly in near-to-medium term as some of these things materialize. Please note we have mentioned about these here in the note but same has not been factored into our estimates and thus a very significant part of these things can add up to our estimates as and when these things happens.

Pricing Optionality: - Several Untapped pricing potential: IRCTC has several untapped pricing potential which will be encashed over next couple of years that includes; 1) Convenience fees hike, 2) Cessation of discounts on UPI, 3) Shift in convenience fees from per PNR to Per Passenger based pricing, 4) Increase in Rail Neer pricing (last hike was in FY12; at that time it was increased from Rs12 to Rs15). We believe these three factors can add collectively incremental revenues of up to Rs18bn to IRCTC. Although there is no such plans underway at this point, we expect most of these would materialise over next 3-7years and thus can add incremental Rs18bn/Rs15bn to its Revenue/EBIT run rate respectively. We think this can be a significant driver as has happened in case of Catering segment where prices for both Mobile/Static catering were revised by up to 50-60% (was to be effected in Q4FY20) although same is yet to play out into revenues given the pandemic.

Exhibit 4: Untapped pricing potential

Opportunity	Current	Upside potential	Incremental rev (Rs bn)	Remark
Convenience fee rate	Rs15/Rs30	30%+	5.0	can go to higher value as was the case in FY17 (Rs20/40)
Discount on UPI payment	33%	~8%	1.3	This can go away as already UPI payments has already become mainstream
Current average passengers per ticket	1.7x	~70%	8.0	If fee is charged per passenger basis instead of per PNR basis
Rail Neer Price last revised in FY12	Rs 15	30%+	3.5	Can go to Rs20/bottle at par with peers rate

Source: DART, Company

New Volume Optionality: UTS App based booking for unreserved tickets to shift to IRCTC: if this goes through the total ticketing volumes can go nearly 3.5x from current levels. The total Non-suburban unreserved passenger traffic in FY20 was about 3bn. If this business is shifted to IRCTC at a modest convenience cost of Rs2/ticket then the additional revenue potential of Rs10bn will add up to its Ticketing TAM.

Exhibit 5: Shift of Unreserved tickets to IRCTC can drive up Ticketing TAM by Rs10bn.

Number of passenger booked (mn)	Suburban	Unreserved	NON-PRS Total	Reserved	Reserved pax mix %
FY15	4,504	3,238	7,742	488	13.1
FY16	4,459	3,188	7,647	504	13.7
FY17	4,568	3,126	7,694	524	14.4
FY18	4,662	3,069	7,731	556	15.3
FY19	4,788	3,053	7,841	594	16.3
FY20	4,599	2,912	7,511	585	16.7
FY21	925	73	999	288	79.7
6MFY22	706	153	859	321	67.7
Current run rate annualised	2,028	524	2,552	911	63.5
Peak run rate annualised	4,788	2,662	7,450	911	25.5
Assumptions - workings					
Convenience Fees (Rs/tkt)	1	2			
TAM (Rs mn)	4,788	5,324	10,112		

Source: DART, Company, Indian Railways

Risk Analysis: 1) Merger with Railtel and CRIS (Center for Railway information System) might result in lower return ratio and growth prospects for the company (as advised by Principal Economic Advisor, Ministry of Finance); 2) significant Capex in 'Train Operations' may impact the return ratios and losses in near term.

Key Assumptions in our estimate

Exhibit 6: Assumptions across business segments in our estimates

Key Assumptions	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Catering Growth	2.0	(78.6)	79.1	93.4	35.9	22.1
Ticketing Growth	168.0	(27.6)	119.3	25.0	20.6	20.8
Rail Neer Growth	28.0	(74.2)	419.4	34.9	23.2	14.9
Tourism Growth	(11.3)	(86.2)	257.1	149.0	45.3	30.6
Catering OPM (%)	11.5	(37.7)	9.1	22.5	27.4	29.0
Ticketing OPM (%)	79.9	78.7	83.8	84.8	86.0	90.3
Rail Neer OPM (%)	23.4	(9.4)	12.2	13.1	17.1	21.3
Tourism OPM (%)	6.5	(130.7)	(17.4)	4.9	10.5	15.5
Catering Segment						
E-catering order volume (Mn)	7.9	0.5	3.8	5.7	8.5	12.0
Units under Licence fees	1,041	1,049	1,471	1,714	1,757	1,807
E-Ticketing Segment						
Numbe of E-Ticket Booked (mn)	302	174	423	507	584	673
Revenue Per Ticket (Rs. Abs)	20.3	18.2	16.5	16.6	16.8	17.7
% of Non-Ticketing Revenue	38	33	29	32	34	33
Rail Neer Segment						
RailNeer Production (mn bottles)	275	71	367	495	610	701
Realisation per bottle (Rs. Abs)	8.1	8.1	8.1	8.1	8.1	8.1
Tourism Segment						
Revenues for Tour/Rail packages	3,483	448	1,258	3,618	5,434	6,913
Rev from Tejas Express	412	90	666	1,170	1,525	2,174

Source: DART, Company

View and Valuations

We expects earnings for IRCTC to compound at 30% CAGR over FY22E-FY30E and thus given its high growth potential and monopolistic positioning across business segment, the stock should command high earnings multiple. We continue to maintain our Positive view on the stock with an Accumulate rating and DCF based TP of Rs5200/share.

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	**22,755**	**7,831**	**18,732**	**28,830**
Total Expense	**15,621**	**5,915**	**9,676**	**15,418**
COGS	11,941	2,885	5,071	9,539
Employees Cost	0	0	0	0
Other expenses	3,680	3,030	4,606	5,880
EBIDTA	**7,134**	**1,915**	**9,056**	**13,411**
Depreciation	399	475	461	480
EBIT	**6,734**	**1,440**	**8,595**	**12,931**
Interest	73	81	147	138
Other Income	781	856	882	923
Exc. / E.O. items	11	394	0	0
EBT	**7,453**	**2,609**	**9,330**	**13,716**
Tax	2,168	710	2,411	3,526
RPAT	5,285	1,899	6,919	10,190
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**5,274**	**1,505**	**6,919**	**10,190**

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	1,600	1,600	1,600	1,600
Minority Interest	0	0	0	0
Reserves & Surplus	11,678	13,070	18,069	24,259
Net Worth	**13,278**	**14,670**	**19,669**	**25,859**
Total Debt	868	887	900	915
Net Deferred Tax Liability	(657)	(719)	(719)	(719)
Total Capital Employed	**13,489**	**14,838**	**19,850**	**26,055**
Applications of Funds				
Net Block	**2,834**	**3,100**	**2,723**	**2,488**
CWIP	162	243	243	243
Investments	0	0	0	0
Current Assets, Loans & Advances	**28,844**	**27,598**	**34,453**	**43,666**
Inventories	98	65	51	79
Receivables	7,894	5,400	4,362	6,635
Cash and Bank Balances	12,964	14,605	21,985	28,725
Loans and Advances	121	114	115	115
Other Current Assets	7,768	7,413	7,940	8,112
Less: Current Liabilities & Provisions	**18,352**	**16,103**	**17,571**	**20,342**
Payables	1,695	1,803	2,121	3,168
Other Current Liabilities	16,656	14,300	15,450	17,174
sub total				
Net Current Assets	10,493	11,495	16,883	23,323
Total Assets	**13,489**	**14,838**	**19,850**	**26,055**

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	47.5	63.2	72.9	66.9
EBIDTA Margin	31.4	24.5	48.3	46.5
EBIT Margin	29.6	18.4	45.9	44.9
Tax rate	29.1	27.2	25.8	25.7
Net Profit Margin	23.2	24.3	36.9	35.3
(B) As Percentage of Net Sales (%)				
COGS	52.5	36.8	27.1	33.1
Employee	0.0	0.0	0.0	0.0
Other	16.2	38.7	24.6	20.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	92.6	17.7	58.6	93.7
Inventory days	2	3	1	1
Debtors days	127	252	85	84
Average Cost of Debt	13.5	9.3	16.4	15.2
Payable days	27	84	41	40
Working Capital days	168	536	329	295
FA T/O	8.0	2.5	6.9	11.6
(D) Measures of Investment				
AEPS (Rs)	33.0	9.4	43.2	63.7
CEPS (Rs)	35.5	12.4	46.1	66.7
DPS (Rs)	12.5	5.0	12.0	25.0
Dividend Payout (%)	37.9	53.2	27.7	39.3
BVPS (Rs)	83.0	91.7	122.9	161.6
RoANW (%)	44.1	13.6	40.3	44.8
RoACE (%)	45.3	11.2	40.7	45.0
(E) Valuation Ratios				
CMP (Rs)	4434	4434	4434	4434
P/E	134.5	471.4	102.5	69.6
Mcap (Rs Mn)	709,496	709,496	709,496	709,496
MCap/ Sales	31.2	90.6	37.9	24.6
EV	697,400	695,779	688,411	681,686
EV/Sales	30.6	88.9	36.8	23.6
EV/EBITDA	97.8	363.3	76.0	50.8
P/BV	53.4	48.4	36.1	27.4
Dividend Yield (%)	0.3	0.1	0.3	0.6
(F) Growth Rate (%)				
Revenue	21.8	(65.6)	139.2	53.9
EBITDA	87.5	(73.2)	372.8	48.1
EBIT	91.4	(78.6)	496.8	50.5
PBT	56.7	(65.0)	257.6	47.0
APAT	96.6	(71.5)	359.7	47.3
EPS	96.6	(71.5)	359.7	47.3

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	4,053	2,473	9,532	11,123
CFI	122	(4,529)	(85)	(245)
CFF	(2,802)	(468)	(2,067)	(4,138)
FCFF	3,705	1,700	9,447	10,878
Opening Cash	4,601	5,974	3,450	10,831
Closing Cash	5,974	3,450	10,831	17,571

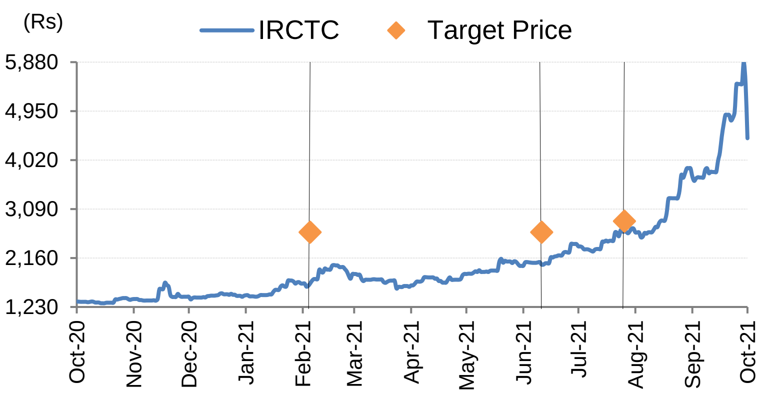
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-21	Buy	2,650	1,675
Jun-21	Buy	2,650	2,034
Aug-21	Accumulate	2,860	2,661

*Price as on recommendation date

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